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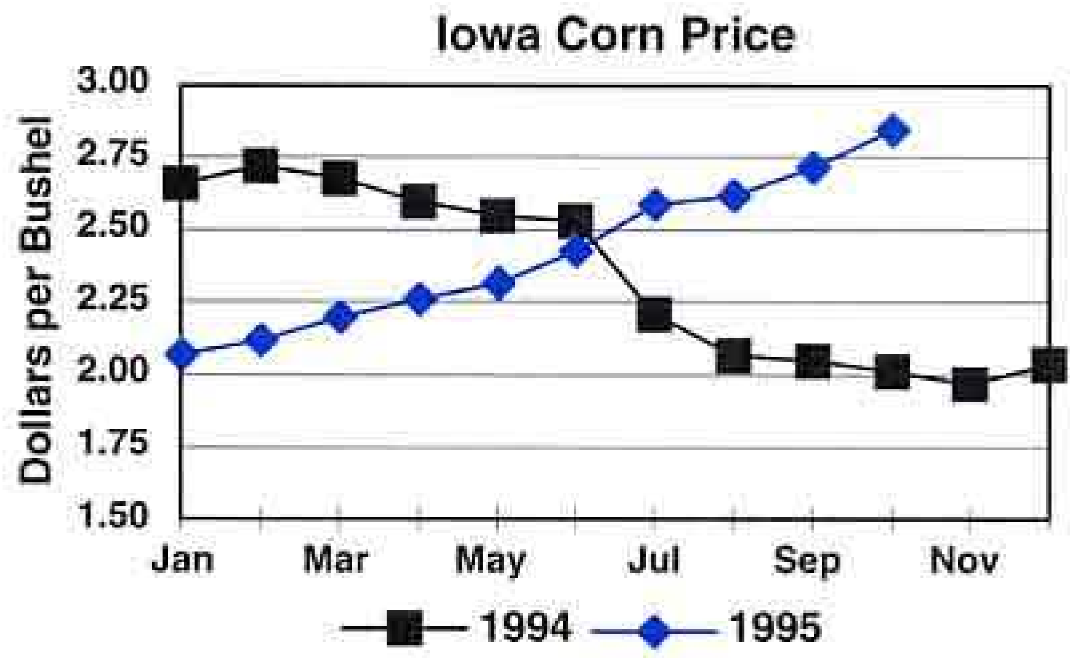

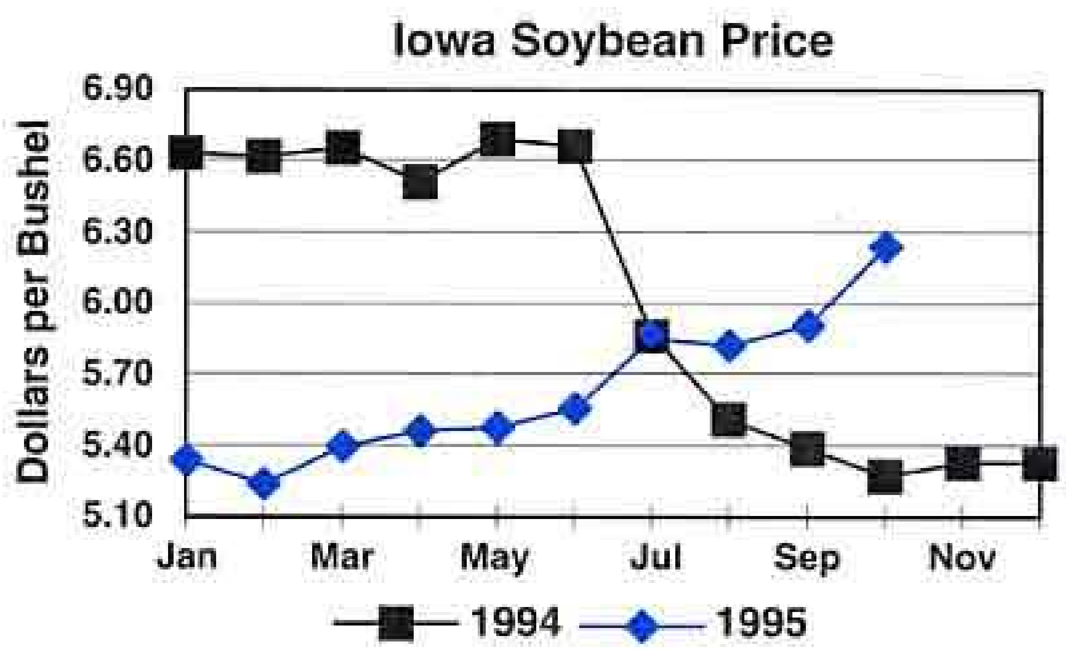

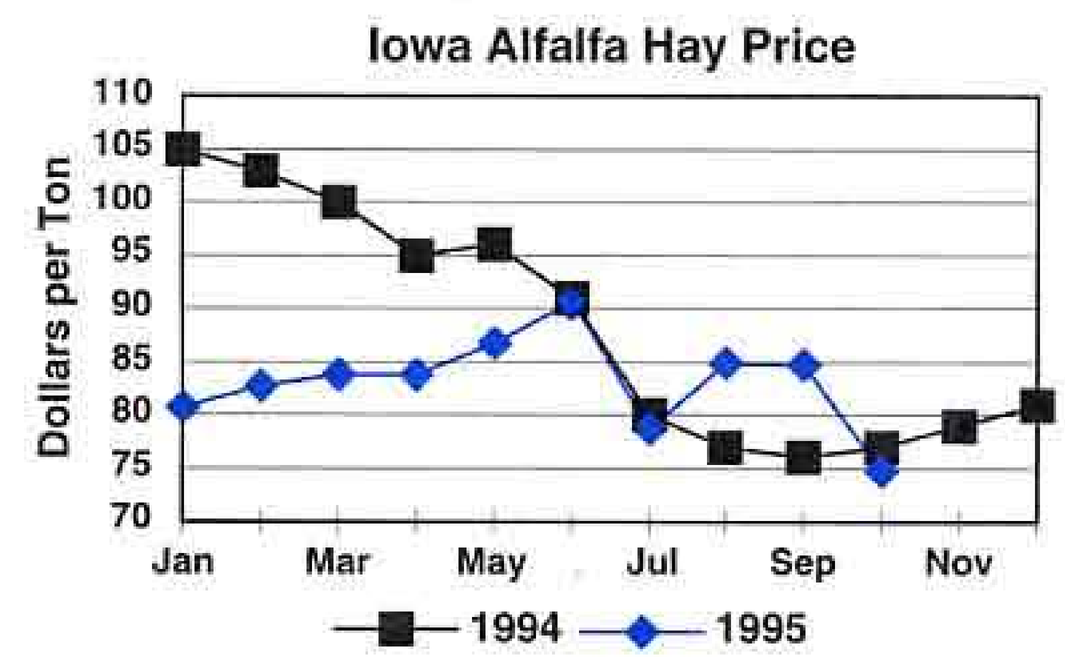

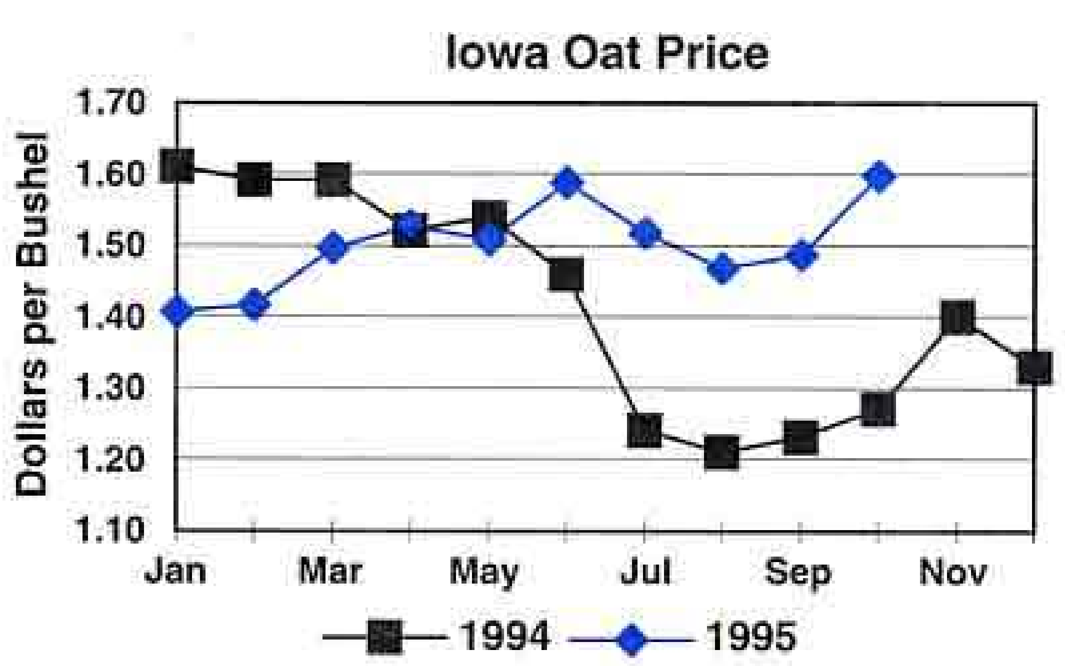

The Current Situation In Iowa

What's Ahead For Iowa Crops?

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Late autumn is a very important time for Iowa's agriculture. The harvest is in and the next year's cropping decisions are being made. These decisions are made yearly, but with an eye to future planting decisions. Historically, these decisions have been based on market economics and the programs under past farm bills. With the looming probability of a new seven-year farm bill, the impact from each of the factors that goes into cropping decisions has changed in importance.

In this evaluation, we use a recent FAPRI analysis of Farm Bill Options to replicate a decision making process for crops in Iowa and estimate crop planting response. We assumed a farm program that falls within the budget guidelines. This program is not a "Freedom-to-Farm" proposal (like the U.S. House proposal) because we use participant and nonparticipant net returns. It is similar to the U.S. Senate proposal in that ARPs have been eliminated and flex acres are raised from 15 to 30 percent. The reason for not using the House version is that in both of the bills, planting decisions will be driven by market economics. In the House bill, however, net income will be impacted by the declining decoupled government payments and lack of a deficiency payment program. The only difference between the two bills nationally was in the provisions on the Conservation Reserve Program (CRP) acres. If the CRP provisions were identical in both bills, the crops important to Iowa would be driven by market conditions. So that is the basis for these scenarios' assumptions.

Net returns for participants over the period of analysis are the highest in 1996/97 (Table 1). Higher market prices, driven mainly by low production, strong demand, and low ending stocks nationwide for 1995/96, lead to the net return situation. In subsequent years, production rebounds, stocks start to increase and the market price declines, but a continuing rise in input prices cuts into net returns at the end of the period.

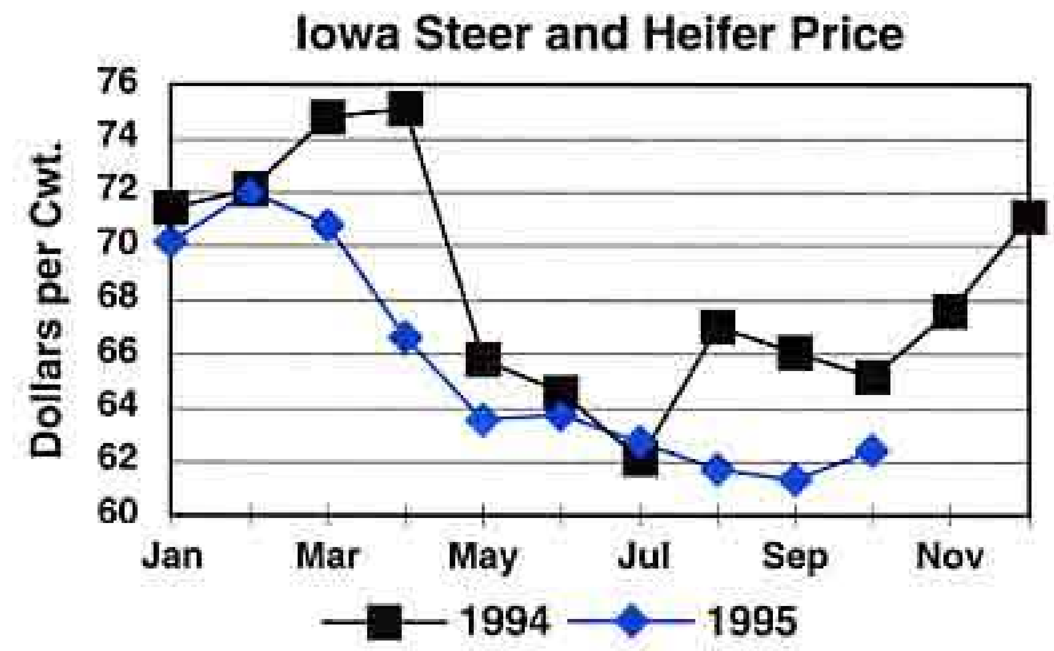
Harvested acres increase at the beginning of the analysis. Corn acres rise in 1996/97 from the 1995/96 USDA estimate of 11.5 million acres, but not above the 12.7 million acres in 1994/95. They rise not only because of the elimination of the ARPs and higher prices, but because some producers were not able to plant as much corn during the wet spring of 1995. Soybean area was at 8.8 million acres in 1994/95 and 9.2 million acres in 1995/96. Projected acreage remains around the 9.2 million acre mark until the very end of the period. Soybean area hovers at about the 9.2 million level due to some people leaving the program in 1996/97 because of the higher flex acres and some staying in the program to flex more land into soybeans. Oat harvested area was estimated at 430,000 acres in 1994/95 and 303,000 acres this year. The acres during the projection period stay within this range, even though they increase slowly. Hay acres harvested were 1.75 million in 1994/95 and 1.85 million acres in 1995/96. The acres increase over the period mainly due to expiring CRP contracts that are not put back into crop production and are harvested for hay.

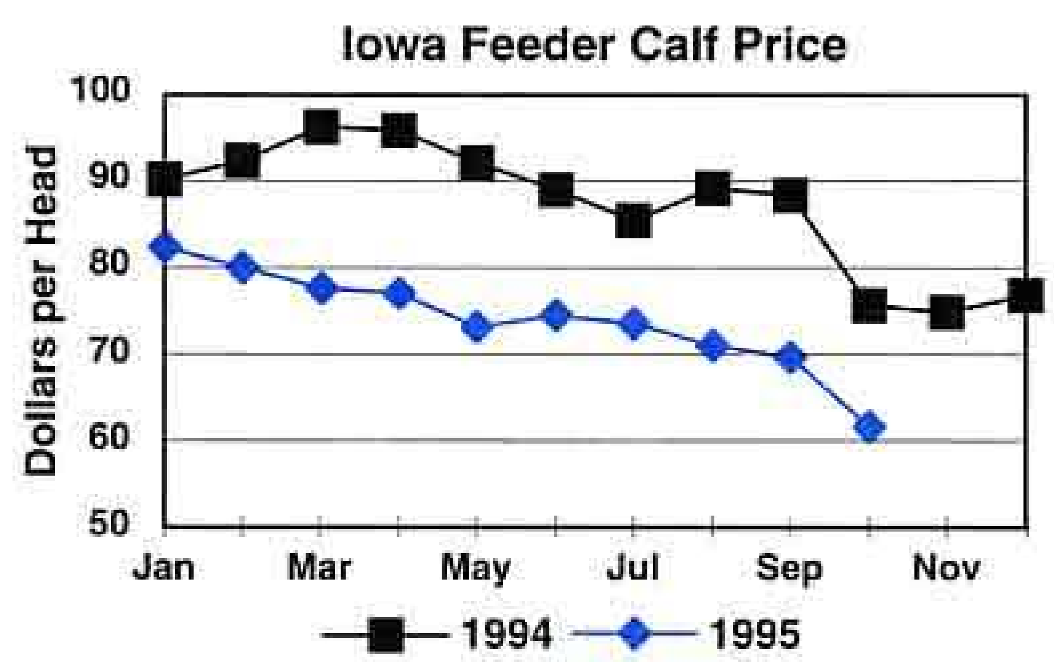
TABLE 1: Expected net returns, farm prices, and areas harvested for the next three years and for the duration of the proposed farm bill.

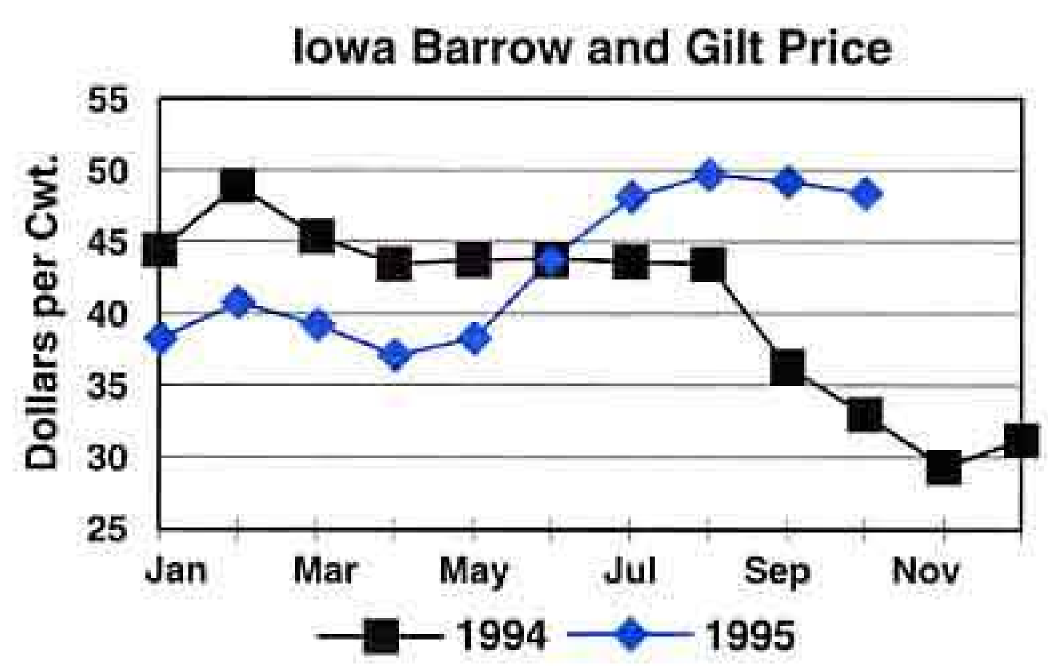
	1996/97	1997/98	1998/99	Average 1999/00-2002/03
IOWA NET RETURNS ($/AC)				
Corn				
Participant	223.80	201.44	190.51	190.59
Nonparticipant	168.80	153.46	142.14	153.45
Soybeans	219.87	194.92	179.47	174.65
Oats				
Participant	87.97	72.50	64.19	61.92
Nonparticipant	46.72	33.61	23.88	27.57
IOWA FARM PRICES				
Corn ($/Bu)	2.52	2.31	2.28	2.47
Soybeans ($/Bu)	6.13	5.65	5.51	5.74
Oats ($/Bu)	1.45	1.34	1.36	1.54
Hay ($/Ton)	60.91	63.07	68.98	61.58
IOWA AREA HARVESTED (1,000 Acres)				
Corn	12,643	12,712	12,855	13,043
Soybeans	9,295	9,272	9,222	9,096
Oats	332	350	359	376
Hay	1,937	2,054	2,113	2,180

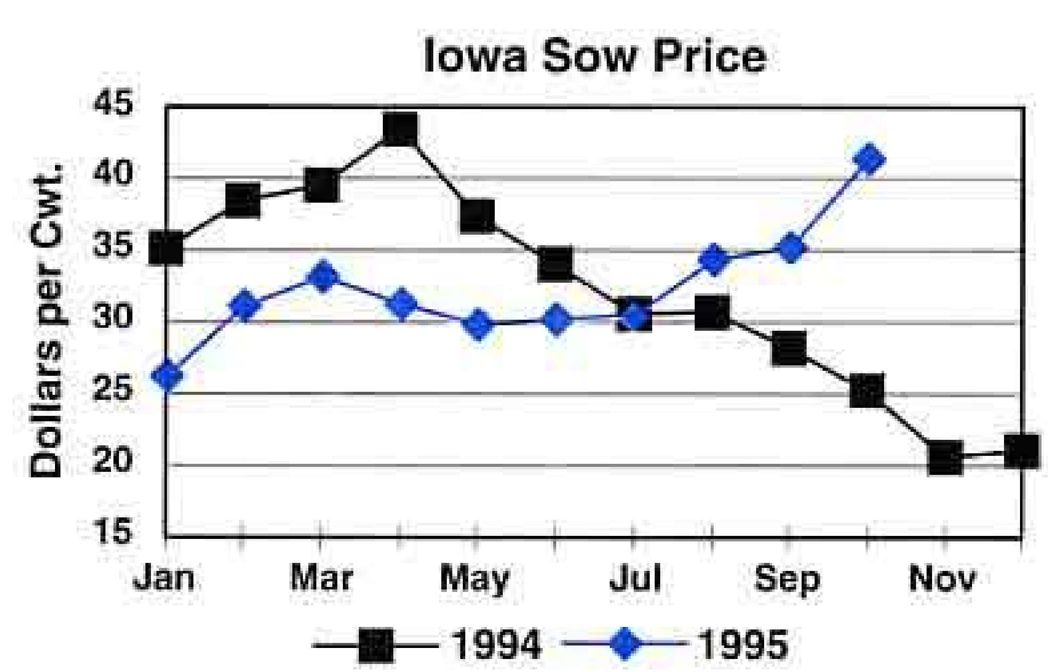
Source: Estimated from FAPRI International and U.S. data.

The information above indicates the direction of Iowa agriculture in the immediate to midterm future. With the Farm Bill outcome being uncertain at press time, general assumptions were made so that the policy would fall within the new budget guidelines. This analysis evaluates the future with the most current production, yield, ending stocks, and price data. While these projections are based on state averages, the general analysis can be used as indicative and background information for individual crop decisions in the near term.









Iowa Farm Income Indicators

Estimated Cash Receipts

	1995	1994	1993
		(Million Dollars)	
Crops			
Jan - Aug Total	3,315	2,069	2,716
Livestock			
Jan - Aug Total	3,659	3,600	3,846
Total			
Jan - Aug Total	6,974	5,669	6,562

Average Farm Prices Received By Iowa Farmers

	Oct 1995	Sep 1995	Oct 1994
		($/Bushel)	
Corn	2.88	2.73	2.01
Soybeans	6.25	5.92	5.27
Oats	1.60	1.49	1.27
		($/Ton)	
Alfalfa	75.00	85.00	77.00
All Hay	72.00	80.30	74.00
		($/Cwt.)	
Steers & Heifers	62.40	61.30	65.20
Feeder Calves	61.50	69.40	75.70
Cows	34.00	34.90	38.60
Barrows & Gilts	48.20	49.10	33.00
Sows	41.20	35.00	25.20
Sheep	21.10	26.00	28.20
Lambs	75.60	84.40	73.40
		($/Lb.)	
Turkeys	0.42	0.44	0.44
		($/Dozen)	
Eggs	0.44	0.55	0.45
		($/Cwt.)	
All Milk	12.80	12.70	12.80

CARD/FAPRI Analysis

Comparing the House and Senate Farm Bill Proposals

(Continued from page 1)

The producer enters into a contract, much like a CRP contract, for seven years. Government payments would be a declining percentage of the past government payments to individual farms. The Conservation Reserve Program (CRP) provision in the bill allows current contract holders an opportunity to extend their contracts at 75 percent of the current rental rates. There is no provision for any new contracts. Dairy programs are deregulated by eliminating the market order program and purchase program for all dairy products. The caps on the Export Enhancement Program (EEP) expenditures are set at a fixed dollar amount below the GATT legal limits until the year 2000 and increase in proportion over the time period (Table 1).

TABLE 1: Maximum Allowed Export Enhancement Program (EEP) Expenditures.

	1996	1997	1998	1999	2000	2001	2002
				(Billion Dollars)			
GATT Allowed	982.8	881.8	780.8	679.8	578.8	477.7	477.7
House Proposal	400.0	400.0	500.0	550.0	579.0	478.0	478.0
Percent of GATT	*41%*	*45%*	*64%*	*81%*	*100%*	*100%*	*100%*
Senate Proposal	767.2	705.6	624.8	544.0	463.2	382.4	382.4
Percent of GATT	*78%**	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*

* The 1996 figure in the Senate proposal is 80 percent of the CBO baseline expenditure of $959.0 billion.

Senate Proposal

The Senate proposal keeps most of the basic Farm Bill structure, but a major change is the increase of Normal Flex Acres (NFA) to 30 percent from the current 15 percent. ARPs are also eliminated as in the House proposal. Complete planting flexibility also exists in the Senate proposal among wheat, feed grains, and oilseeds, without loss of base or deficiency payments. The deficiency payments on the 70 percent of base not flexed are capped so that costs stay within the budget guidelines (Table 2).

The 0-50/85/92 programs are consolidated into a 0/85 program (25/75 for rice). By 2003 the CRP program budget is reduced to a fixed amount of funds that would cut CRP acres for the eight major crops to around 17 million acres from the current level of 27.4 million acres. The dairy provision of the program eliminates the purchase program for butter and nonfat